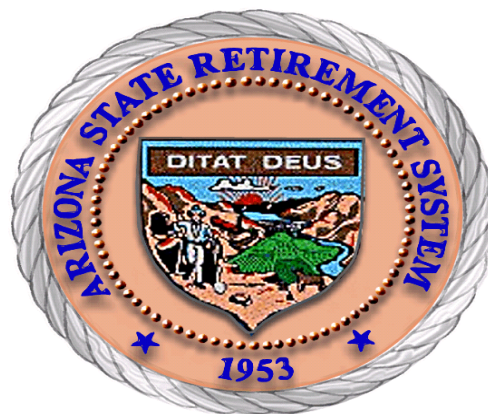


Arizona State Retirement System Board



Opportunistic Investments Review

Gary R. Dokes, Chief Investment Officer

Al Alaimo, Fixed Income Portfolio Manager

Steven McCourt, Principal, Meketa Investment Group

December 17, 2010

Agenda

- Opportunistic Investments Definitions
- Program Overview
- Managers' Performance Review
- Notable Developments
- Market Metrics

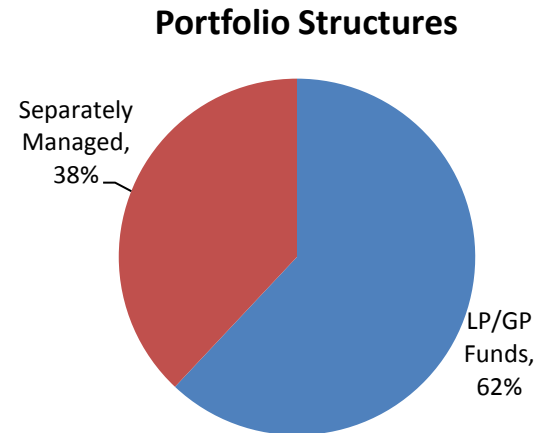
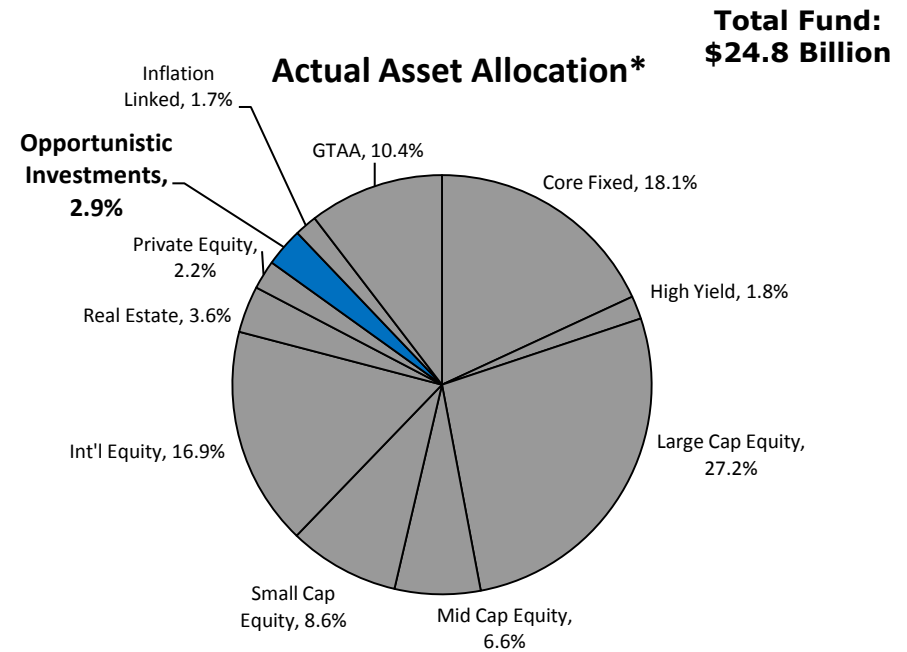
ASRS Opportunistic Investments

Opportunistic Investments are defined as:

- Being tactical in nature. That is, they should capitalize on temporary opportunities created by market conditions/dislocations AND...
- Be outside of the Total Fund Benchmark or;
- If within the Total Fund Benchmark, the strategy will be absolute return oriented

Opportunistic Investments Overview

- **Market Value: Approx. \$740 M**
- **Policy Allocation 0% (0-10%)**
- **Portfolio Structures:**
 - 5 LP/GP Funds
 - 2 Separate Accounts

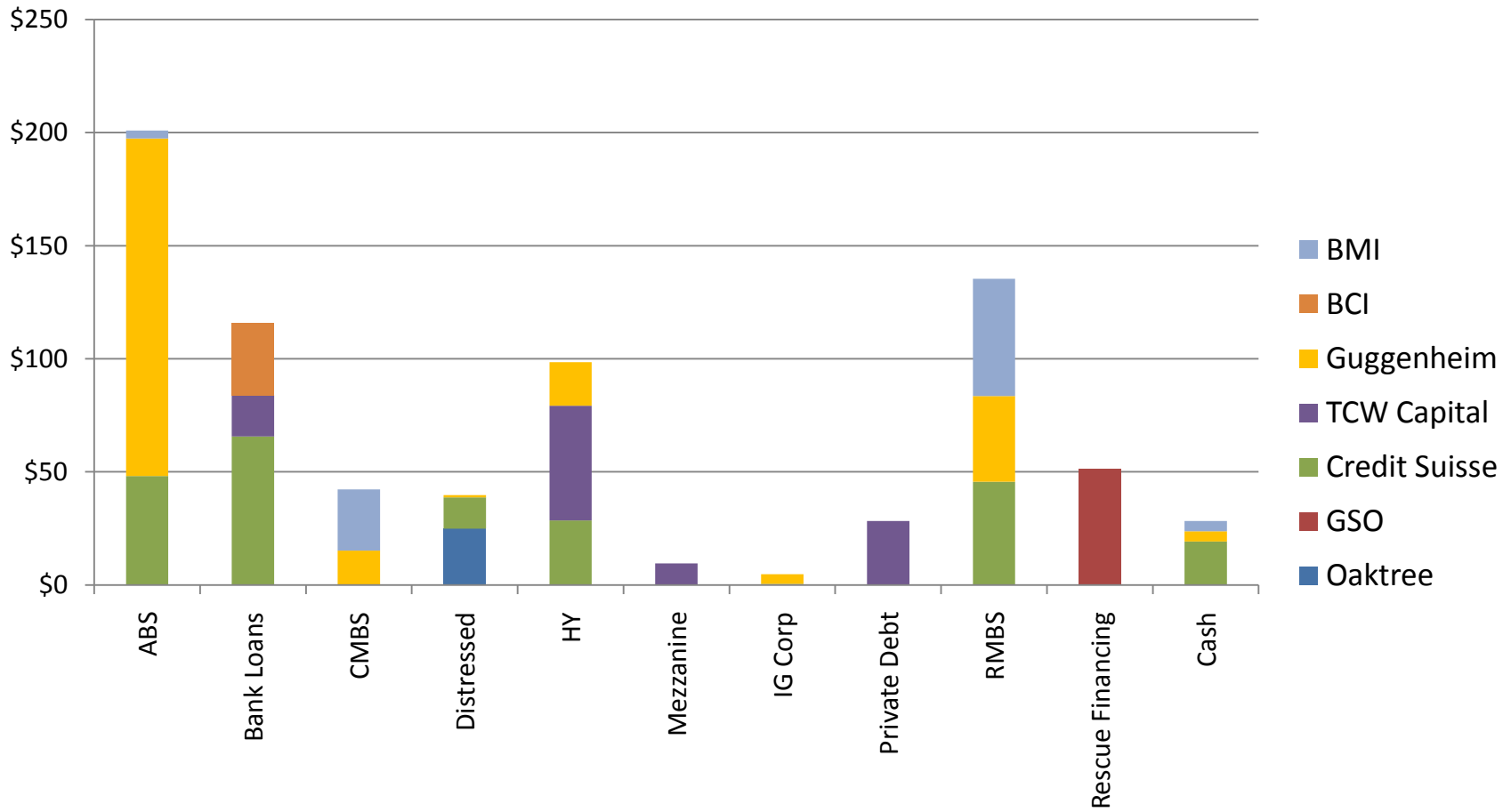


**Note: Domestic Equity, International Equity and Fixed Income allocations exclude GTAA portfolios.*

Opportunistic Investments Overview

Composition in Dollars

as of September 30, 2010

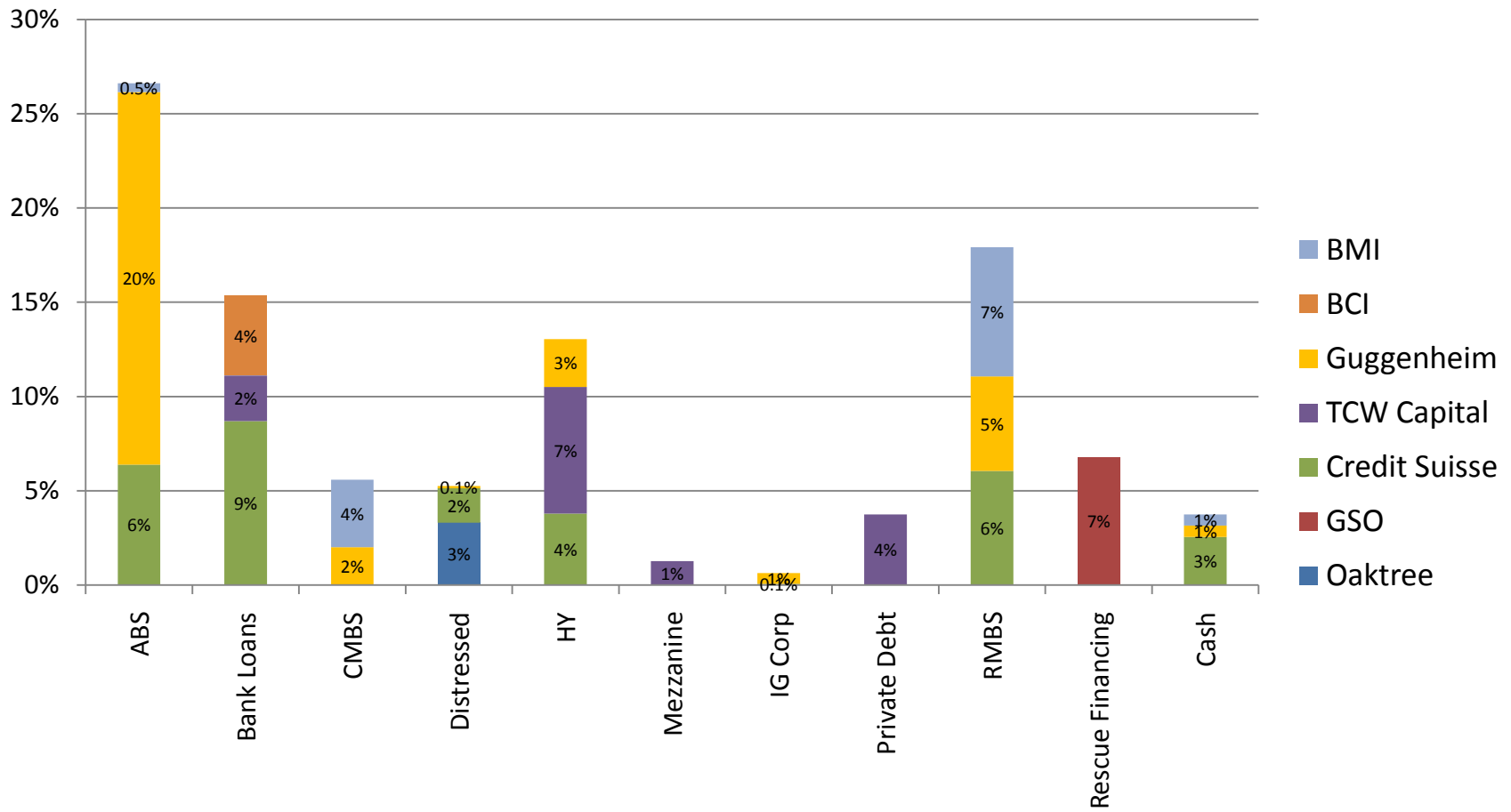


Note: Distressed include leveraged loans, corporate bonds and non-debt securities (e.g. warrants, preferred stock and common equity) designated by the manager as “distressed” based on a number of factors including ratings (generally below Caa3 or CCC-), trading level (substantial discount to par), expected return, and/or other circumstances (likelihood of bankruptcy or out-of-court restructuring).

Opportunistic Investments Overview

Composition per Security Type

as of September 30, 2010



Note: Distressed include leveraged loans, corporate bonds and non-debt securities (e.g. warrants, preferred stock and common equity) designated by the manager as “distressed” based on a number of factors including ratings (generally below Caa3 or CCC-), trading level (substantial discount to par), expected return, and/or other circumstances (likelihood of bankruptcy or out-of-court restructuring).

Opportunistic Investments Performance Score Card

as of June 30, 2010 (Official)*

Fund	Inception Date	Committed (\$Mil)	MV (\$Mil)	ITD (TWR)
BlackRock Mortgage Investors – LP/GP	3/28/08	\$75	\$80	3.0%
TCW Credit Opportunities - LP/GP ¹	7/7/08	\$100	\$5	19.4%
BlackRock Credit Investors- LP/GP ²	9/29/08	\$100	\$39	49.4%
Hyperion Asset Management – SA	10/1/08	\$150	\$99	12.9%
Guggenheim Partners – SA	10/1/08	\$150	\$218	27.5%
TCW Capital Trust – LP/GP	9/29/09	\$150	\$109	4.0%
Credit Suisse Opportunistic –SA	10/22/09	\$200	\$216	8.8%
GSO –LP/GP	1/15/10	\$200	\$51	8.5%
Oaktree Opportunities Fund VIII –LP/GP	5/6/10	\$50	\$14	N/A

Evaluation Metrics		
Absolute Return Expectation (net)	Barclays Agg. ITD	Total Fund ITD [#]
14%	6.5%	3.6%
10%	7.8%	-7.2%
12%	8.4%	0.8%
10%	9.1%	0.8%
10%	9.1%	0.8%
10%	5.5%	0.6%
10%	5.4%	0.6%
13%	4.1%	-1.1%
15%	1.6%	6.7%

as of October 31, 2010 (Preliminary)

Fund	Inception Date	Committed (\$Mil)	MV (\$ Mil)	ITD (TWR)
BlackRock Mortgage Investors – LP/GP	3/28/08	\$75	\$87	15.7%
BlackRock Credit Investors – LP/GP ²	9/29/08	\$100	\$33	35.2%
Guggenheim Partners – SA	10/1/08	\$150	\$234	39.5%
TCW Capital Trust – LP/GP	9/29/09	\$150	\$112	14.0%
Credit Suisse Opportunistic –SA	10/22/09	\$200	\$231	21.1%
GSO –LP/GP ³	1/15/10	\$200	\$60	N/A
Oaktree Opportunities Fund VIII –LP/GP ⁴	5/6/10	\$50	\$19	20.5%

Evaluation Metrics		
Absolute Return Expectation (net)	Barclays Agg. ITD	Total Fund ITD [#]
14%	6.8%	-7.1%
12%	8.5%	1.9%
10%	9.1%	1.9%
10%	7.8%	2.8%
10%	8.2%	2.8%
13%	7.1%	2.5%
15%	4.5%	1.6%

* Used in 3Q10 TF performance reported at the Dec, 17 2010 Board Meeting, which are quarter lagged. Market Values are adjusted for cash flows through September 30, 2010.

¹TCW Credit Opportunities Fund returned capital and redeemed fund during 2Q10, Final monies returned mid-August 2010.

²Blackrock Credit Investors returned all capital and redeemed fund in October 2009; however, it re-called \$33.5mm on June 18, 2010

³GSO reports performance on a quarterly basis only, returns are as of September 30, 2010

⁴Oaktree reports performance on a quarterly basis only, returns are as of September 30, 2010. Manager does not provide IRR performance calculations.

Total Fund ITD uses closest quarter end for the starting date

Notable Developments

Blackrock Mortgage Investors (BMI)

- Limited partners agreed to extend the investment period by one year to November 30, 2011 to enable the fund to take advantage of ongoing investment opportunities in the RMBS market including mortgage whole loan portfolios and distressed whole loans.

Blackrock Credit Investor Funds II (BCI)

- Prior to the end of the investment period of the fund on June 2010, BCI called back \$33.5 million of capital to fund the purchase of limited partnership interests in two Blackrock bank loan funds at an 18% discount to NAV.

TCW Credit Opportunities

- Fund terminated by limited partners following departure of Jeff Gundlach and team from TCW in December 2009.
- Majority of capital returned during 2Q10; final monies returned in August 2010.

Notable Developments

TCW Capital Trust

- TCW plans to spin out the Leveraged Finance group that manages this fund on January 1, 2011 as Crescent Capital Group LP.
- The investment team managing the fund will not change nor will the back office and other operations as they will continue to be handled by TCW.
- No impact is expected on the management of the fund.

Credit Suisse Opportunistic Mandate

- On October 1, 2010, Credit Suisse spun-off its distressed and structured credit groups into separate, minority owned entities that now sub-advise on the mandate.
- Organizational change is not expected to adversely impact the portfolio.

Hyperion Brookfield

- ASRS defunded the mandate in the Summer of 2010, following an extended rally in the CMBS and RMBS markets.
- The account remains open and available for refunding, depending on available investment opportunities.

Spread sectors generated positive excess returns on a YTD basis with the exception of the long credit sector

Barclays Capital Fixed Income Indices relative to Treasurys (excess return) 1998–2010

	Agencies	MBS	ABS	CMBS Inv. Grade	U.S. Credit	Intermediate Credit	Long Credit	U.S. High Yield	EMD
Quality Ranking	High	High	High	High	Medium	Medium	Medium	Low	Low
1998	-49	-90	-88	n/a	-238	-150	-381	-843	-2046
1999	41	113	137	87	170	164	182	476	2417
2000	-13	-77	43	-41	-463	-237	-1003	-1897	148
2001	73	-75	139	131	277	138	667	-285	-541
2002	96	173	-16	210	-187	-129	-371	-1329	23
2003	27	11	181	201	527	439	824	2642	2465
2004	78	142	142	118	159	151	190	800	823
2005	13	-37	32	15	-85	-25	-291	47	959
2006	75	122	87	137	119	107	156	843	702
2007	-52	-185	-634	-435	-464	-399	-655	-777	-457
2008	-110	-255	-2223	-3274	-1786	-1504	-2719	-3832	-2842
2009	238	482	2496	2960	1990	1707	2880	5955	3797
YTD 2010	70	159	169	1336	77	154	-162	603	278

Source: Barclays Capital, YTD as of November 30, 2010
The above table is shown for illustrative purposes only

Historical Yield Spreads

12/31/2007 – 11/26/2010

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	30-Sep	31-Dec	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
US Credit Index	181	259	238	385	493	482	275	198	157	156	158	136	132	172	179	161	168	160	153	155
US High Yield Index	569	781	708	1,020	1,662	1,514	945	764	617	636	657	570	548	679	700	642	673	621	575	591
CMBS "Duper"	83	190	197	390	864	1,081	755	571	519	478	436	339	299	387	356	340	334	307	300	284
CMBS Mezz ("AM")	133	340	270	500	1,720	2,199	1,493	1,171	1,120	1,029	987	853	679	829	914	902	834	723	657	612
CMBS A Junior (AJ")	180	580	450	775	2,883	3,533	2,973	2,432	2,399	2,299	2,223	2,061	1,573	1,608	1,746	1,637	1,523	1,394	1,234	1,154
CSFB Leveraged Loan Index	465	643	596	813	1,314	1,141	795	620	589	559	569	518	501	567	578	553	563	552	538	532

